

Budget 2011

Budget report - 23 March 2011...

...the Chancellor took around one hour to deliver his second budget speech, a combination of previous announcements and a few surprises. This document includes the key points that we believe will be of particular interest to our private clients and their families - we hope that you find it useful.

Naturally, if you have any queries or you would like to discuss the impact of any of the announcements in relation to your own circumstances we will be happy to talk to you, just get in touch with your usual Sagars contact.

Income tax and national insurance rates and allowances

The income tax and national insurance changes due to take effect from 6 April 2011 had already been announced prior to the Budget – some of them, such as the increase in national insurance contributions (NICs), by the previous government.

The personal tax allowance will rise by £1,000 to £7,475 but the increase will only benefit people whose income does not take them into the 40% tax band – currently the threshold stands at £43,875 but it reduces to £42,475 on 6 April this year.

In his budget speech, the Chancellor announced that the personal tax allowance will increase by £630 to £8,105 from 6 April 2012, whilst the basic rate band will reduce by £630 to leave the threshold before higher rate tax is payable at £42,475. This means that even those who pay 40% tax will obtain some benefit from the increase in the personal allowance, unless their income exceeds £116,210, at which point the

personal allowance is completely clawed back.

Whilst the 50% tax rate still applies to taxable income above £150,000, the Chancellor did say that he hoped it would only be a temporary measure, and he has asked HMRC to analyse how much additional tax the new rate actually raises.

National insurance contributions are set to rise as planned by 1% from 6 April 2011, when the starting point goes up to £7,225, but earnings above that level will be charged at 12% rather than 11% - this applies to income up to £42,475 and earnings above that level are charged at 2%. The 1% increase applies to employer's NICs as well, taking the level to 13.8%.

The Chancellor announced a review of the national insurance system, with a view to merging it with income tax, although there are many factors to be considered and it is likely to be a number of years before this comes into effect.

Pensions

Following a period of great uncertainty for high earners, many of whom have been limited to £20,000 of fully tax relievable pension contributions for the past couple of years, the government had already announced that a new limit of £50,000 will apply from 6 April 2011.

For many people it should also be possible to carry forward unused relief (by reference to the gross £50,000 limit) from the previous three years, however care still needs to be taken as the rules are complicated.

It is very important to take specific pensions advice before making large pension contributions, to ensure you will get full tax relief. These rules apply jointly to personal and employer contributions in aggregate.

The lifetime limit on the maximum pension fund an individual can build up is being reduced from £1.8m to £1.5m.

The government had also already announced that the rules regarding purchase of an annuity are also changing – it is no longer necessary to turn the pension fund into an annuity at age 75, the fund can

remain in drawdown, with a 55% tax charge on any fund remaining on death. Whilst this may be a welcome relaxation for some, it also means that the tax charge on funds in drawdown if death occurs before 75 may increase from 35% to 55%.

No further pension changes were announced in the budget, although the Chancellor confirmed his objective to introduce a flat rate state pension and to crack down on arrangements such as EFRBs, which have been used as a means of tax avoidance.

Tax efficient investments

The tax relief available to individuals who invest in companies which qualify under the **enterprise investment scheme** (EIS) will go up from 20% to 30% from 6 April 2011, with a maximum possible investment of £500,000.

In view of the fact that the investment can also enable capital gains made in the previous three years to be rolled over into the EIS, the maximum relief on £500,000 could be as much as 58% (£30% income tax relief and 28% CGT relief).

The Chancellor also announced an intention to increase the maximum EIS relief which could be claimed to £1m from April 2012 and to change the conditions so that more companies can qualify as suitable for EIS investment.

Last year the government announced that it proposed to introduce **Junior ISAs** and legislation regarding these is expected shortly. They should be available from autumn 2011 and will be available to any child who does not have a child trust fund.

Changes for employees

In view of the recent rise in petrol costs, it's not surprising that the Chancellor announced that the **Approved Mileage Allowance Payment (AMAP)** would increase to 45p for the first 10,000 business miles. There is no change to the 25p rate which applies over 10,000 miles. The AMAP is the amount which a business can reimburse employees for business mileage without there being any taxable benefit charge. It is also used as a basis for calculating travel costs by many self-employed people. If an employee is paid less than the AMAP rate they can make a claim to HMRC for relief for the difference.

There are also further changes to the tax payable by those employees who use **company cars** and **fuel for private motoring**. Changes for 2011 were already in place and new changes are for 2013 onwards.

Employer supported childcare schemes have been a popular way for employees and employers to save on tax and national insurance, often through salary sacrifice arrangements, by receiving tax exempt vouchers of up to £55 per week. Following a number of consultations regarding the relief, it has been announced that from April 2011, any new joiners to such schemes will only be entitled to basic rate tax relief.

The Office of Tax Simplification has reviewed a number of tax reliefs and recommended that some be abolished from next year. Amongst these is the long standing exemption for **luncheon vouchers** of 15p a day, the tax exemption for the cost of **late night taxis**, and the exemption for breakfasts provided to cyclists on designated **cycle to work days**.

Capital gains tax

The annual CGT exemption will rise to £10,600 from 6 April 2011 and, like many other reliefs, will increase by reference to the consumer prices index in future years.

Perhaps the biggest surprise was the announcement that the lifetime allowance for entrepreneur's relief will double in value from £5m to £10m with effect from the same date. The qualifying conditions are unchanged. This means that on a qualifying business sale the first £10m of gains will be taxed at 10%, with any balance charged at either 18% or 28%.

Foreign domiciled individuals and a statutory residence test

A major reform of the taxation of UK residents who were not domiciled in the UK was introduced in 2008 with the introduction of an annual £30,000 charge to enable such individuals to continue to avoid UK tax on their overseas income and gains if retained outside the UK.

The Government will consult further on introducing two main changes from April 2012, namely an increase in the annual charge to £50,000 for individuals who have been resident in the UK for at least 12 tax years, and relief

where foreign gains are remitted to invest in a UK business.

You may be surprised to know that the UK has no statutory test to determine whether you are resident in the UK and chargeable to UK taxes. It has been left to the courts to rule on a case by case basis which is wholly unsatisfactory and created huge uncertainty for taxpayers. The Government has decided that it is time to introduce a statutory test to determine residence for tax purposes and will do so after a period of consultation in April 2012.

Furnished holiday lets

It was confirmed in the budget that from April 2011 it will no longer be possible to offset losses from holiday lets against other income, apart from profits from the same furnished holiday let business.

It will not be possible to offset a loss say on a Spanish holiday let property against a profit on a UK holiday let, but a loss on a UK property could be offset against a profit on another UK holiday home. In addition, from April 2012, the rules regarding the number of days that a property is available for letting will change. Properties will now have to be available for at least 210 days a year and let for at least 105 days (previously 70).

These changes may mean that people decide to opt out of the furnished holiday let rules and simply have the property taxed under the normal property rental provisions, however this could mean losing valuable capital gains tax reliefs.

Charitable giving

The Government signified a clear intention to encourage charitable giving and deliver improvements to existing regulations for both donors and charities.

Currently, small donations of less than £10 per person, perhaps raised through street collectors shaking tins, are not eligible for Gift Aid. However, the Government have entered into further consultation and now decided that, from April 2013, charities are allowed to claim Gift Aid on such donations without a declaration up to a maximum of £5,000 provided that they have been operating Gift Aid successfully for three years on other gifts.

In a further measure to increase charitable donation, the government is seeking advice on a way to reduce the rate of inheritance tax chargeable on a deceased person's estate to 36% from 40% where they have left at least 10% of their chargeable estate to charity. They are also considering introducing tax relief for donors who give works of art or objects of national importance to the State.

New rules will be introduced in the Finance Act 2011 to increase, from £500 to £2,500, the maximum value of the benefits that individuals and companies may receive as a result of making a donation to a charity of more than £10,000 under Gift Aid. The new limit will remain subject to the existing rule that the benefit must not exceed five per cent of the gift.

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